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ISSUER COMMENT
15 April 2016

RATING

General Obligation (or GO Related)[1]	
Aa3	Positive

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Township of Northampton, PA

Annual Comment on Northampton Township

Issuer Profile

Northampton Township is located in Bucks County in southeastern Pennsylvania, approximately 20 miles northeast of Philadelphia. Bucks County has a population of 626,685 and a population density of 1,037 people per square mile. The county's per capita personal income is $62,514 (1st quartile) and the November 2015 unemployment rate was 3.8% (1st quartile).[2] Health services, manufacturing, and retail trade are key drivers of the local economy. St. Mary's Medical Center, Doylestown Hospital, Central Bucks School District, and county government rank as top employers in the area.

Credit Overview

Northampton Township's credit position is very healthy, and its Aa3 rating matches the US city median of Aa3. The rating reflects a wealthy socioeconomic profile, a substantial tax base, an extremely small debt burden, and a mid-ranged pension liability. It also includes an adequate financial position.

Economy and Tax Base: The economy and tax base of the township are exceptionally strong and are favorable with respect to its Aa3 rating. The median family income equates to a robust 189.2% of the US level. In addition, the full value per capita ($132,849) is above other Moody's-rated cities nationwide and grew modestly between 2011 and 2014. Lastly, the total full value ($5.3 billion) is stronger than the US median.

Debt and Pensions: The debt and pension burdens of Northampton Township are low and are a modest credit strength when compared with its Aa3 rating. The net direct debt to full value (0.3%) is materially below the US median. Furthermore, although the Moody's-adjusted net pension liability to operating revenues (1.3x) rose modestly from 2012 to 2014, it favorably is slightly under the US median.

Finances: The township has a moderate financial position; however, it is a relative weakness when compared with its Aa3 rating. The fund balance as a percent of operating revenues (13.4%) is materially below the US median. Furthermore, the cash balance as a percent of revenues (7.5%) is significantly beneath other Moody's-rated cities nationwide and declined slightly from 2011 to 2014.

Management and Governance: Positive operating margins are a component of strong financial management. Favorably, on average, Northampton Township ran surpluses over the past several years, while the tax base improved modestly.

Pennsylvania cities have an institutional framework score [3] of "Aa," or strong. Revenues are moderately predictable; although property taxes are typically the largest revenue source,

many cities also rely on economically sensitive revenues such as income taxes. Cities have a very high, unlimited authority to increase property tax rates. Expenditures, which primarily consist of personnel, are moderately predictable as cities have been challenged to forecast labor costs accurately. Organized labor has a strong presence in the state, and labor laws give bargaining groups significant leeway to seek arbitration, resulting in a moderate expenditure-reduction ability.

Sector Trends - Pennsylvania Cities

Pennsylvania cities will generally benefit from an improving state economy, as a modest rebound in the housing market is expected to deliver job growth focused in the education and healthcare sectors. Expanding employment and an improving housing market will support growth in property and other local taxes, which will help to offset expenditure pressures related to high pension and benefit costs. Organized labor has a strong presence in the Commonwealth, and cities will remain challenged to control and predict labor costs.

Exhibit 1

Key Indicators[4] [5]

Northampton Township, PA

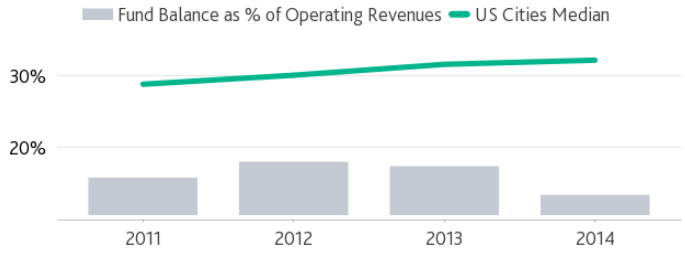
	2011	2012	2013	2014	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	$5,237M	$5,414M	$5,292M	$5,278M	$1,722M	Stable
Full Value Per Capita	$131,836	$136,289	$133,207	$132,849	$85,195	Stable
Median Family Income (% of US Median)	N / A	189.2%	189.2%	189.2%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	15.8%	18%	17.4%	13.4%	32.1%	Stable
Cash Balance as % of Operating Revenues	11.7%	6.7%	10.3%	7.5%	34.4%	Stable
Debt / Pensions						
Net Direct Debt / Full Value	0.40%	0.40%	0.40%	0.30%	1.2%	Stable
Net Direct Debt / Operating Revenues	1.42x	1.30x	1.17x	1.06x	0.94x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N / A	0.30%	0.40%	0.40%	1.7%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N / A	0.88x	1.15x	1.32x	1.35x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues decreased slightly from 2011 to 2014

Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

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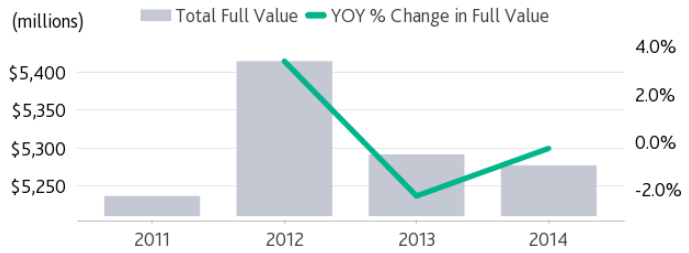
Exhibit 3

Full value of the property tax base grew modestly between 2011 and 2014

Total Full Value

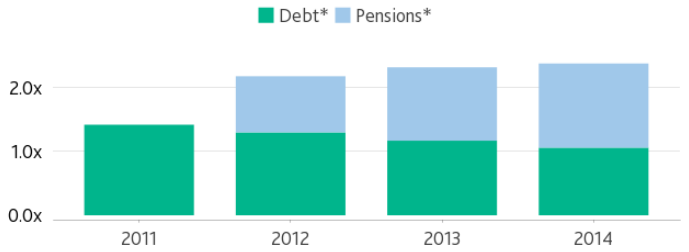


Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues increased slightly from 2012 to 2014

Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See Local Government GO Pledges Vary Across States. for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.

2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is $46,049 for 2014. The median unemployment rate for US counties is 4.8 % for November 2015.

3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (January 2014) for more details.

4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability (March 2016). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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